

Fairfax County Economic Index

Volume X, Number 2

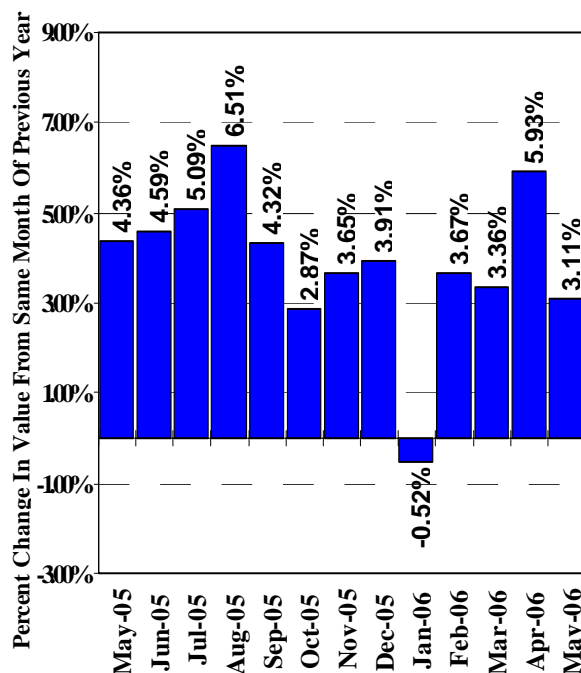
July 2006

The Fairfax County Economy Slowed in May Outlook Remains Good

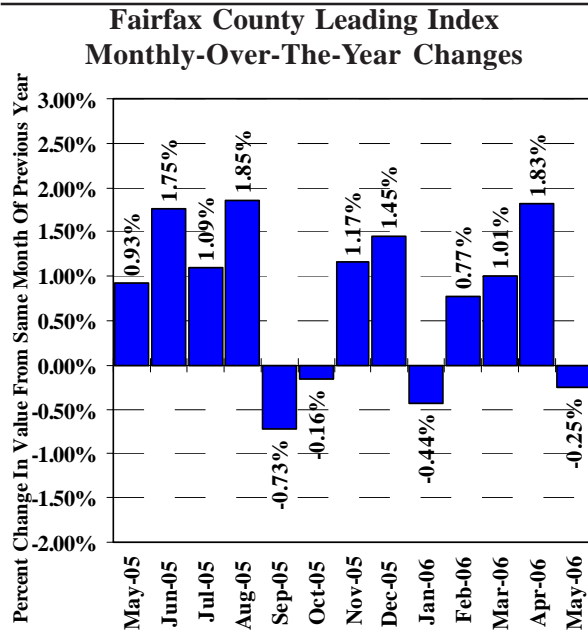
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 137.0 in May for a loss of 1.94 percent. However, on a monthly over-the-year basis, the Coincident Index continued to increase gaining 3.11 percent from May of 2005 extending its monthly gain to a fourth consecutive month. Over the full expansion, the Index has increased twenty-nine of the past thirty months on a month over-the-year basis (January 2006 was the sole negative month). In May, three of the Index's four indicators were negative.

- Total employment in May decreased from April declining for the second time in three months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, fell for the second time in three months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, decreased for the third time in four months; while,
- Consumer confidence (in the present) was up for a seventh month.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 107.93 in May for a loss of 0.25 percent, on a monthly over-the-year basis, the Index was also down after being positive in February, March and April. Since turning positive 38 months ago, the Leading Index has been up in 34 months and down in four (January and May in 2006, September and October in 2005). In May all of the Index's three component indicators contributed to its decline.

- Automobile registrations decreased in May for a second consecutive monthly decline;
- Initial claims for unemployment insurance increased (worsened) for a second month after improving in February and March; while,
- Consumer expectations (consumer confidence six months hence) decreased for the second time in three months.

The Coincident Index fell back further in May from its March peak value with broad based declines reflecting the general slowing of the economic expansion in the region and nation. This weakness in the economy was reflected principally on the consumer side of the equation although employment growth softened slightly as businesses become more cautious in response to rising energy costs and grow-

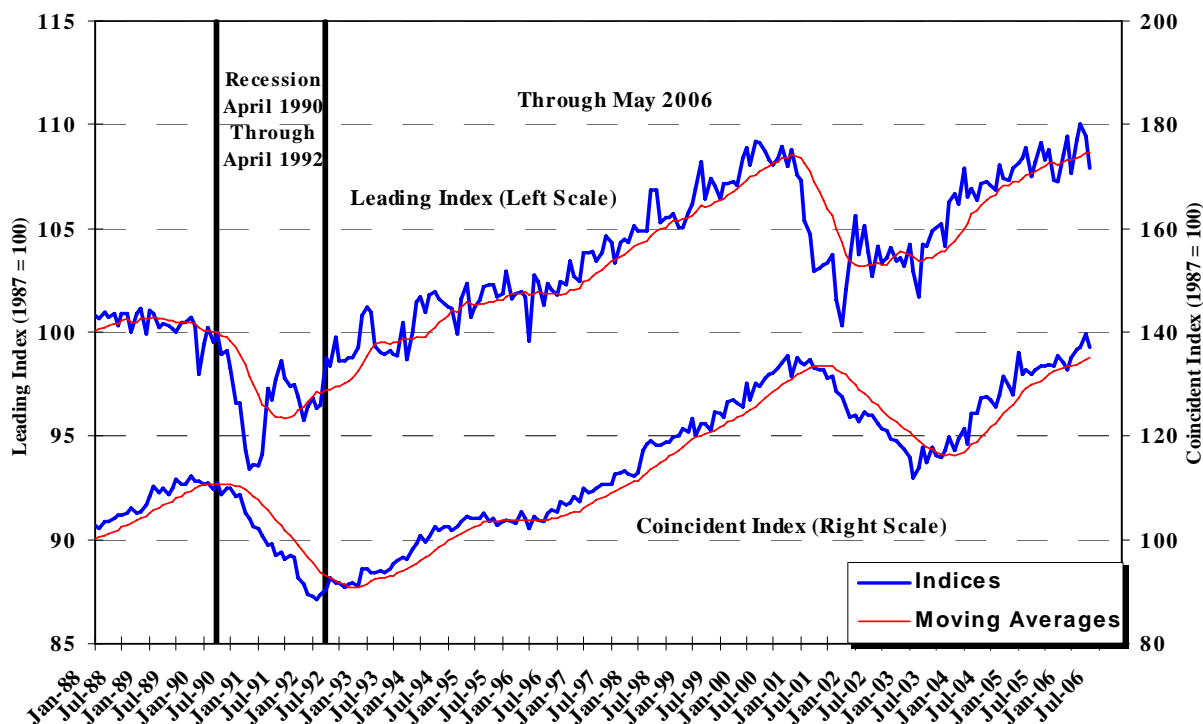
ing inflation (interest rate) worries. The Leading Index also weakened in May as national and global factors—rising energy costs, Iraq, inflation and rising interest rates—undercut confidence in the economy's future performance. These broad-based economic weaknesses impacting the Fairfax County economy are national in scope and therefore will likely continue to be a drag on the County's economic performance over the remainder of the year.

CURRENT CONDITIONS

The national economy slowed significantly in the second quarter from its 5.6 percent GDP growth rate registered during the 1st quarter. This slowdown is being driven by multiple reinforcing conditions that are resulting in slower consumer spending and more cautious hiring by employers. The most visible among these negative forces were the rapid increase in gasoline prices, continuing interest rate tightening by the Fed, and slower housing starts and resales. Underlying these forces are the growing uncertainty in the Middle East that has now pushed crude oil prices up to the high \$70s per barrel followed by inflation that remains stubbornly above the upper limits of the Federal Reserve Board's guideline of 2 percent. The net effects of these forces are slower consumer spending, declining consumer confidence in the economy looking out six months, and continuing interest rate increases that are now expected to take the benchmark Federal Funds rate to 5.5 percent on August 8th and possibly still higher by the end of the year. With these negative conditions hanging over the national and regional economy, it is only logical to expect the Fairfax County economy's three-year expansion to slow as well.

The current cooling of the County's economy is evident in both the consumer and business sectors. Retail sales, while up for the year, were lower in May compared to April. Similarly, automobile sales were off sharply for a second month clearly suffering from consumer hesitation concerning gasoline prices. While the County's employment base continues to expand, up 3.5 percent from a year ago adding 21,650 net new jobs with unemployment down to 2.1 percent (compared to 2.7 percent in May 2005), other labor market indicators are not as favorable. Initial claims for unemployment insurance are up (worsening) for a second month and hiring in May was lower than in April. The hospitality sector was

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason

weaker in May, which is normally one of its strongest months (air passenger traffic at Dulles and Reagan-National Airports was down in May, too).

NEAR-TERM OUTLOOK

The result of growing uncertainty and rising prices is predictable. The National Leading Index has decreased slightly in each of the past several months and the Washington Leading Index is down, too, pointing to slower growth over the second half of 2006 followed by even slower growth in 2007. With interest rates, inflation and energy prices all expected to negatively impact the national and regional economies over the remainder of the year and into next, the Fairfax County economy is also expected to slow.

While the County's growth rate over the first half of the year has likely fallen below forecast, the outlook for the full-year's performance remains good. To date, the strength of the Fairfax County economy has proven sufficient to support its continued above-average growth rate and this is projected to carry forward into next year. Still, as the negative forces acting on the national and regional economies

are also affecting on the County's economy, it is prudent to be more cautious going forward with respect to revenue and income forecasting.

Last year at this time, the County's economy was generating 25,000 net new jobs on an average annual basis and unemployment was 2.7 percent. In May 2006, with unemployment down to 2.1 percent and employers being more cautious in their hiring plans, job growth was down to 21,500 annually. Sales tax revenues are up 2.2 percent for the last twelve months but down 2.4 percent in May from April. These trends are indicative of a broader-based slowing in the economy that will carry over the summer and into the winter months.

What happens to oil prices (currently flirting with \$80 per barrel) will be a major determinant of the economy's performance over the year as energy price increases are passed along in other products to consumers. If oil prices fall back to \$70 per barrel or less, the Fairfax County economy should experience a slight re-acceleration. If oil prices remain over \$75 per barrel, the slowdown will continue and may even accelerate over the winter as home heating costs further erode consumer spending.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-06 Prelim.	Apr-06 Final	May-05 Final	Apr-06 to May-06	May-05 to May-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	137.00	139.70	132.87	-1.94	3.11
Leading Index (1987 = 100)	107.93	109.49	108.20	-1.43	-0.25
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	632,533	634,263	610,887	-0.27	3.54
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	633,273	629,005	611,601	0.68	3.54
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	776	855	753	-9.20	3.10
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,456	1,534	1,365	-5.12	6.67
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,103	9,329	8,905	-2.43	2.22
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,047	12,728	12,059	2.51	8.19
South Atlantic Consumer Confidence	159.2	156.9	143.7	1.47	10.79
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,291	5,454	5,225	-2.98	1.27
<i>Automobile Registrations (Unadjusted)</i>	5,841	5,362	5,768	8.93	1.27
Initial Unemployment Claims (Seasonally Adjusted)	919	746	874	23.21	5.12
<i>Initial Unemployment Claims (Unadjusted)</i>	842	739	801	13.94	5.12
South Atlantic Consumer Expectations (Unadjusted)	93.6	105.4	105.1	-11.20	-10.94
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,446	601,086	589,943	-0.11	1.78
<i>Total Labor Force (Unadjusted)</i>	602,836	600,124	592,291	0.45	1.78
Employed Labor Force (Seasonally Adjusted)	587,906	585,775	574,257	0.36	2.38
<i>Employed Labor Force (Unadjusted)</i>	590,135	586,100	576,434	0.69	2.38
Unemployed Labor Force (Seasonally Adjusted)	12,540	15,311	15,686	-18.10	-20.06
<i>Unemployed Labor Force (Unadjusted)</i>	12,701	14,024	15,857	-9.43	-19.90
Unemployment Rate (Percent, Seasonally Adjusted)	2.1%	2.5%	2.7%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.1%	2.3%	2.7%	--	--

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm

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